

**THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

**BAY STATE GAS COMPANY)
REQUEST FOR AN INCREASE IN BASE RATES)
AND OTHER RATE ADJUSTMENTS)**

D.T.E. 05-27

**PETITION OF BAY STATE GAS COMPANY
FOR APPROVAL OF TARIFFS, A
PERFORMANCE BASED REGULATION PLAN
AND OTHER RELATED RATE MECHANISMS**

NOW COMES Bay State Gas Company ("Bay State") and pursuant to G.L. c. 164, sec. 94 seeks approval by the Department of Telecommunications and Energy ("Department") of the rate schedules and tariffs M.D.T.E. Nos. 34 through 68, to become effective June 1, 2005, attached hereto as Attachment 1, that support a general increase in Bay State's rates to be effective June 1, 2005. Bay State also seeks the Department's approval of certain other rate adjustments reflected in its testimony. In support thereof, Bay State states as follows.

1. Bay State is a "gas company" subject to the Department's jurisdiction under G.L. c. 164.
2. Bay State's principal administrative and operating office is located at 300 Friberg Parkway, Westborough, Massachusetts.
3. Bay State serves approximately 285,000 customers in its three service areas, which areas include the cities of Springfield, Brockton and Lawrence.
4. Based on a test year of 2004, and an examination of Bay State's revenues, expenses and rate base, Bay State's current rate levels are not sufficient to provide

Bay State the opportunity to recover the costs of serving its customers with natural gas distribution service and do not provide Bay State with a reasonable opportunity to earn its allowed rate of return.

5. The Department has recognized that market volatility and uncertainty exists with respect to pension and postretirement benefits other than pensions (“PBOP”) and has permitted other jurisdictional companies to recover these costs or types of costs and obligations through a separate rate mechanism. See, e.g., Boston Gas Co., D.T.E. 03-40 (2003); NStar Companies, D.T.E. 03-47 (2004); Fitchburg Gas and Elec. Light Co., D.T.E. 04-48 (2004). Bay State therefore requests approval of a pension and PBOP reconciling mechanism (“PPM”), for recovery of pension and PBOP obligations incurred on behalf of its current and retired employees.
6. Bay State has identified the need for accelerated replacement of its aging unprotected steel infrastructure. Accordingly, Bay State seeks approval of its Steel Infrastructure Replacement (“SIR”) Base Rate Adjustment, in the context of an annual base rate adjustment mechanism (“ABRAM”).
7. Consistent with Department precedent, Bay State proposes a performance-based regulation (“PBR”) plan that includes provision for a five (5) year PBR period. The significant elements of Bay State’s proposed PBR are the same as, or similar to, those approved by the Department for Boston Gas Company in D.T.E. 03-40 (2003).
8. In support of its tariffs and PBR plan, Bay State submits the following:

- a. The Testimony and Exhibits of Stephen H. Bryant, President of Bay State, to provide an overview of the filing and Bay State's need for rate relief, to support Bay State's request for the Steel Infrastructure Replacement ("SIR") program and Base Rate Adjustment, and to support Bay State's proposed recovery of its remaining investment in Metscan telemetering devices and related lease commitments (Volume II, Exh. BSG/SHB-1 through Exh. BSG/SHB-4);
- b. The Testimony, Schedules, Exhibits and Workpapers of John E. Skirtich to support the total revenue requirement and amount of the requested increase in base revenues for Bay State (Volume II, Exh. BSG/JES-1 through Exh. BSG/JES-3; Workpaper Vol. 1 - Skirtich);
- c. The Testimony, Schedules and Exhibits of Stephen A. Barkauskas to support Bay State's payroll, wages and benefits expenses. Mr. Barkauskas also supports Bay State's request to recover a portion of its pension and postretirement benefit other than pension ("PBOP") obligation through a Pension and PBOP Mechanism ("PPM") (Volume II, Exh. BSG/SAB-1 through Exh. BSG/SAB-2);
- d. The Testimony and Exhibits of Danny G. Cote, General Manager of Bay State (Volume III, Exh. BSG/DGC-1 through Exh. BSG/DGC-12), to support the need for the SIR program, Bay State's capital budgeting process, Bay State's plant additions, and certain sales and leases of Bay State property;
- e. The Testimony, Exhibits, Schedules and Workpapers of Joseph A. Ferro, Bay State's Manager of Regulatory Policy, to support Bay State's operating revenues and billing determinants (Volume III, Exh. BSG/JAF-1), rate design, PPM adjustment and annual base rate adjustment mechanism ("ABRAM") (Volume III, Exh. BSG/JAF-2) and tariff and rate schedules (Volume III, Exh. BSG/JAF-3). See also, Workpapers Vol. 2 - Ferro. A redlined version of Bay State's proposed tariffs is filed in Vol. III, Exh. BSG/JAF-3, Schedule JAF-1;
- f. Testimony and Exhibits of Dr. Lawrence R. Kaufmann (Volume IV, Exh. BSG/LRK-1 through Exh. BSG/LRK-2), Principal of Pacific Economics Group, to support the elements of Bay State's proposed PBR Plan;
- g. The Testimony, Exhibits and Appendices of Paul R. Moul, (Volume IV, Exh. BSG/PRM-1 through Exh. BSG/PRM-2), to support Bay State's capital structure and proposed return on equity; and

- h. The Testimony and Exhibits of Earl M. Robinson, Principal of AUS, to support Bay State's proposed depreciation expense (Volume IV, Exh. BSG/EMR-1 and Exh. BSG/EMR-2); and
- i. The Testimony, Schedules and Workpapers of James L. Harrison, Principal of Management Applications Consulting, to support Bay State's gas cost allocation and simplified market based allocation ("SMBA") (Volume V, Exh. BSG/JLH-1), its allocated cost of service study (Volume V, Exh. BSG/JLH-2), and its marginal cost of service study (Volume V, Exh. BSG/JLH-3). See also Workpapers Vol. 3 – Harrison.

9. Bay State presents these tariffs in compliance with the Department's rules and regulations and ratesetting precedent.

WHEREFORE, for all the reasons set forth in this petition and in the testimony of Bay State's witnesses, Bay State Gas Company respectfully requests that the Department of Telecommunications and Energy approve its tariffs and the accompanying rate requests.

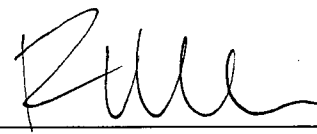
Respectfully submitted,

BAY STATE GAS COMPANY

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Dated: April 27, 2005